ALLIANCE DATA SYSTEMS CORP
Form 10-K
February 26, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-15749

ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	31-1429215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7500 Dallas Parkway, Suite 700 Plano, Texas (Address of principal executive offices)	75024 (Zip Code)

(214) 494-3000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2018, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $12.5 billion, based upon the closing price of $233.20 per share on the New York Stock Exchange on June 29, 2018, which was the last business day of the registrant’s most recently completed second fiscal quarter.

As of February 20, 2019, 52,997,685 shares of common stock were outstanding.

Documents Incorporated By Reference

Certain information called for by Part III is incorporated by reference to certain sections of the Proxy Statement for the 2018 Annual Meeting of our stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

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Caution Regarding Forward-Looking Statements

This Form 10-K and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “project,” “plan,” “likely,” “m or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe that our expectations are based on reasonable assumptions. Forward-looking statements, however, are subject to a number of risks and uncertainties that could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this report, and no assurances can be given that our expectations will prove to have been correct. These risks and uncertainties include, but are not limited to, the following:

- loss of, or reduction in demand for services from, significant clients;
- increases in net charge-offs in credit card and loan receivables;
- failure to identify or successfully integrate or disaggregate business acquisitions or divestitures;
- increases in the cost of doing business, including market interest rates;
- inability to access the asset-backed securitization funding market;
- loss of active AIR MILES® Reward Program collectors;
- disruptions in the airline or travel industries;
- increased redemptions by AIR MILES Reward Program collectors;
- unfavorable fluctuations in foreign currency exchange rates;
- limitations on consumer credit, loyalty or marketing services from new legislative or regulatory actions related to consumer protection and consumer privacy;
- increases in FDIC, Delaware or Utah regulatory capital requirements for banks;
- failure to maintain exemption from regulation under the Bank Holding Company Act;
- loss or disruption, due to cyber attack or other service failures, of data center operations or capacity;
- loss of consumer information due to compromised physical or cyber security; and
- those factors discussed in Item 1A of this Form 10-K, elsewhere in this Form 10-K and in the documents incorporated by reference in this Form 10-K.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Further risks and uncertainties include, but are not limited to, the structure and timing of any transaction involving Epsilon®, whether and on what terms a transaction will be completed, the possibility that closing conditions for a transaction may not be satisfied or waived, the impact of our strategic evaluations and any transaction on us or our business if a transaction is completed, and whether the benefits of a transaction can be achieved. See “Recent Developments” under Part I, “Item 1. Business” for additional information.

Any forward-looking statements contained in this Form 10-K speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.

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PART I

Item 1.Business.

We are a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based businesses in a variety of industries. We offer a comprehensive portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services and private label and co-brand retail credit card programs. We focus on facilitating and managing interactions between our clients and their customers through all consumer marketing channels, including in-store, online, email, social media, mobile, direct mail and telephone. We capture and analyze data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and to enhance customer loyalty. We believe that our services are more valued as businesses shift marketing resources away from traditional mass marketing toward more targeted marketing programs that provide measurable returns on marketing investments.

Our client base of more than 2,200 companies consists primarily of large consumer-based businesses, including well-known brands such as Bank of Montreal, Sobeys Inc., Shell Canada Products, Albert Heijn, Bank of America, General Motors, FedEx, Walgreens, Kellogg’s, Citibank, Victoria’s Secret, Wayfair, Signet, IKEA and Ulta. Our client base is diversified across a broad range of end-markets, including financial services, specialty retail, grocery and drugstore chains, petroleum retail, automotive, hospitality and travel, telecommunications, insurance and healthcare. We believe our comprehensive suite of marketing solutions offers us a significant competitive advantage, as many of our competitors offer a more limited range of services. We believe the breadth and quality of our service offerings have enabled us to establish and maintain long-standing client relationships.

Recent Developments

In the exercise of its business judgment, our Board of Directors has undertaken an evaluation of our current portfolio of businesses. In November 2018, we announced the exploration of strategic alternatives for Epsilon, including a potential sale of the business. In January 2019, we received preliminary bids for Epsilon and the process continues to advance. There can be no assurance that the exploration of strategic alternatives generally, or this process in particular, will result in any transaction or that a transaction will be consummated. Any final decision regarding strategic alternatives remains subject to approval by our Board of Directors.

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Segments

Our products and services are reported under three segments—LoyaltyOne®, Epsilon and Card Services, and are listed below. Financial information about our segments and geographic areas appears in Note 21, "Segment Information," of the Notes to Consolidated Financial Statements.

Segment	Products and Services
LoyaltyOne	• AIR MILES Reward Program • Short-term Loyalty Programs • Loyalty Services —Loyalty consulting —Customer analytics —Creative services —Mobile solutions
Epsilon	• Marketing Services —Agency services —Marketing technology services —Data services —Strategy and insights services —Traditional and digital marketing —Digital CRM services —Affiliate marketing services
Card Services	• Receivables Financing —Underwriting and risk management —Receivables funding • Processing Services —New account processing —Bill processing —Remittance processing —Customer care • Marketing Services

LoyaltyOne

Our LoyaltyOne clients are focused on acquiring and retaining loyal and profitable customers. We use the information gathered through our loyalty programs to help our clients design and implement effective marketing programs. Our clients within this segment include financial services providers, grocers, drug stores, petroleum retailers and specialty retailers. LoyaltyOne operates the AIR MILES Reward Program and BrandLoyalty.

The AIR MILES Reward Program is a full service outsourced coalition loyalty program for our sponsors, who pay us a fee per AIR MILES reward mile issued, in return for which we provide all marketing, customer service, rewards and redemption management. We typically grant participating sponsors exclusivity in their market category, enabling them to realize incremental sales and increase market share as a result of their participation in the AIR MILES Reward Program coalition.

The AIR MILES Reward Program enables consumers, referred to as collectors, to earn AIR MILES reward miles as they shop across a broad range of retailers and other sponsors participating in the AIR MILES Reward Program. These AIR MILES reward miles can be redeemed by our collectors for travel or other rewards. Through our AIR MILES Cash program option, collectors can also instantly redeem their AIR MILES reward miles collected in the AIR MILES Cash program option toward in-store purchases at participating sponsors. Approximately two-thirds of Canadian households actively participate in the AIR MILES Reward Program, and it has been named a “most influential” Canadian brand in Canada’s Ipsos Influence Index.

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The three primary parties involved in our AIR MILES Reward Program are: sponsors, collectors and suppliers, each of which is described below.

Sponsors. Approximately 140 brand name sponsors participate in our AIR MILES Reward Program, including Shell Canada Products, Jean Coutu, RONA, Amex Bank of Canada, Sobeys Inc. and Bank of Montreal.

Collectors. Collectors earn AIR MILES reward miles at thousands of retail and service locations, typically including any online presence the sponsor may have. Collectors can also earn AIR MILES reward miles at the many locations where collectors can use certain credit cards issued by Bank of Montreal and Amex Bank of Canada. This enables collectors to rapidly accumulate AIR MILES reward miles across a significant portion of their everyday spend. The AIR MILES Reward Program offers a reward structure that provides a quick, easy and free way for collectors to earn a broad selection of travel, entertainment and other lifestyle rewards through their day-to-day shopping at participating sponsors.

Suppliers. We enter into agreements with airlines, manufacturers of consumer electronics and other providers to supply rewards for the AIR MILES Reward Program. The broad range of rewards that can be redeemed is one of the reasons the AIR MILES Reward Program remains popular with collectors. Over 400 suppliers use the AIR MILES Reward Program as an additional distribution channel for their products. Suppliers include well-recognized companies in diverse industries, including travel, hospitality, electronics and entertainment.

BrandLoyalty designs, implements, conducts and evaluates innovative and tailor-made loyalty programs for grocers worldwide. These loyalty programs are designed to generate immediate changes in consumer behavior and are offered through leading grocers across Europe and Asia, as well as around the world. These short-term loyalty programs are designed to drive traffic by attracting new customers and motivating existing customers to spend more because the reward is instant, topical and newsworthy. These programs are tailored for the specific client and are designed to reward key customer segments based on their spending levels during defined campaign periods. Rewards for these programs are sourced from, and in some cases produced by, key suppliers in advance of the programs being offered based on expected demand. Following the completion of each program, BrandLoyalty analyzes spending data to determine the grocer’s lift in market share and the program’s return on investment.

Epsilon

Epsilon is a leading marketing services firm providing end-to-end, integrated marketing solutions that leverage rich data, analytics, creativity and technology to help clients more effectively acquire, retain and grow relationships with their customers. Services include strategic consulting, customer database technologies, omnichannel marketing, loyalty management, proprietary data, predictive modeling, permission-based email marketing, personalized digital marketing, affiliate marketing and a full range of direct and digital agency services. On behalf of our clients, we develop marketing programs for individual consumers with highly targeted offers and personalized communications via our digital media practice, Conversant®, to create better customer experiences. Since these communications are more relevant to the consumer, the consumer is more likely to be responsive to these offers, resulting in a measurable return on our clients' marketing investments. We distribute marketing campaigns and communications through all marketing channels based on the consumer's preference, including direct mail and digital platforms such as email, mobile, display and social media. Epsilon has over 1,800 clients, operating primarily in the financial services, insurance, media and entertainment, automotive, consumer packaged goods, retail, travel and hospitality, pharmaceutical/healthcare and telecommunications industries.

Agency Services. Through our consulting services we analyze our clients' business, brand and/or product strategy to create customer acquisition and retention plans and tactics designed to further optimize our clients' customer relationships and marketing return on investment. We offer ROI-based targeted marketing services through data-driven creative, digital user experience design technology, customer relationship marketing, consumer promotions marketing, direct and digital shopper marketing, distributed and local area marketing, and services that include brand planning and consumer insights.

Marketing Technology Services. For large consumer-facing brands, we design, build and operate complex consumer marketing databases, including loyalty program management, such as the Dunkin' Donuts DD Perks®, Walgreens Balance® Rewards and Citi Thank You® programs. Our solutions are highly customized and support our clients' needs for real-time data integration from a multitude of data sources, including multichannel transactional data.

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Data Services. We believe we are one of the leading sources of comprehensive consumer data essential to marketers when making informed marketing decisions. Together with our clients, we use this data to create customer profiles and develop highly-targeted, personalized marketing programs that increase response rates and build stronger customer relationships.

Strategy and Insights. We provide behavior-based, demographic and attitudinal customer segmentation, purchase analysis, web analytics, marketing mix modeling, program optimization, predictive modeling and program measurement and analysis. Through our analytical services, we gain a better understanding of consumer behavior that can help our clients as they develop customer relationship strategies.

Traditional and Digital Marketing. We provide strategic communication solutions and our end-to-end suite of products and services includes strategic consulting, creative services, campaign management and delivery optimization. We deploy marketing campaigns and communications through all marketing channels, including direct mail and digital platforms such as email, display, mobile, video and social digital channels. We also operate what we believe to be one of the largest global permission-based email marketing platforms in the industry, sending tens of billions of emails per year on behalf of our clients, and enabling clients to build campaigns using measurable distribution channels. Conversant offers a fully integrated personalization platform and personalized media programs that are fueled by an in-depth understanding of what motivates people to engage, connect and buy. Further, Conversant helps companies grow by creating personalized experiences that deliver higher returns for brands and greater value for consumers.

Affiliate Marketing. We operate CJ Affiliate, one of the world’s largest affiliate marketing networks specializing in pay-for-performance programs designed to drive results. Our network helps to create connections amid millions of online consumers daily by facilitating relationships between advertisers and publishers.

Card Services

Our Card Services segment assists some of the best known retailers in extending their brand with a private label and/or co-brand credit card account that can be used by their customers in the store, or through online or catalog purchases. Our partners benefit from customer insights and analytics, with each of our credit card branded programs tailored to our partner’s brand and their unique card members.

Receivables Financing. Our Card Services segment provides risk management solutions, account origination and funding services for our more than 160 private label and co-brand credit card programs. Through these credit card programs, as of December 31, 2018, we had $16.9 billion in principal receivables from 41.7 million active accounts, with an average balance for the year ended December 31, 2018 of approximately $762 for accounts with outstanding balances. L Brands and its retail affiliates accounted for approximately 10% of our average credit card and loan receivables for the year ended December 31, 2018. We process millions of credit card applications each year using automated proprietary scoring technology and verification procedures to make risk-based origination decisions when approving new credit card accountholders and establishing their credit limits. Credit quality is monitored at least monthly during the life of an account. We augment these procedures with credit risk scores provided by credit bureaus. This information helps us segment prospects into narrower risk ranges, allowing us to better evaluate individual credit risk.

Our accountholder base consists primarily of middle- to upper-income individuals, including women who use our credit cards primarily as brand affinity tools. These accounts generally have lower average balances compared to balances on general purpose credit cards. We focus our sales efforts on prime borrowers and do not target sub-prime borrowers.

We use securitization and deposit programs as principal funding vehicles for our credit card receivables. Securitizations involve the packaging and selling of both current and future receivable balances of credit card accounts to a master trust, which is a variable interest entity, or VIE. We have three master trusts that are consolidated in our financial statements.

Processing Services. We perform processing services and provide service and maintenance for private label and co-brand credit card programs. We use automated technology for bill preparation, printing and mailing, and also offer consumers the ability to view, print and pay their bills online. By doing so, we improve the funds availability for both our clients and for those private label and co-brand credit card receivables that we own or securitize. We also provide

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collection activities on delinquent accounts to support our private label and co-brand credit card programs. Our customer care operations are influenced by our retail heritage and we view every customer touch point as an opportunity to generate or reinforce a sale. Our call centers are equipped to handle a variety of inquiry types, including phone, mail, fax, email, text and web. We provide focused training programs in all areas to achieve the highest possible customer service standards and monitor our performance by conducting surveys with our clients and their customers. For the thirteenth time since 2003, we were certified as a Center of Excellence for the quality of our operations, the most prestigious ranking attainable, by BenchmarkPortal. Founded by Purdue University in 1995, BenchmarkPortal is a global leader of best practices for call centers.

Marketing Services. Our private label and co-brand credit card programs are designed specifically for retailers and have the flexibility to be customized to accommodate our clients' specific needs. Through our integrated marketing services, we design and implement strategies that assist our clients in acquiring, retaining and managing valuable repeat customers. Our credit card programs capture transaction data that we analyze to better understand consumer behavior and use to increase the effectiveness of our clients' marketing activities. We use multi-channel marketing communication tools, including in-store, web, permission-based email, mobile messaging and direct mail to reach our clients' customers.

Disaster and Contingency Planning

We operate, either internally or through third-party service providers, multiple data processing centers to process and store our customer transaction data. Given the significant amount of data that we or our third-party service providers manage, much of which is real-time data to support our clients' commerce initiatives, we have established redundant capabilities for our data centers. We have a number of safeguards in place that are designed to protect us from data-related risks and in the event of a disaster, to restore our data centers' systems.

Protection of Intellectual Property and Other Proprietary Rights

We rely on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and technology used in each segment of our business. We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our technology, documentation and other proprietary information. Despite the efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of our products or technology that we consider proprietary and third parties may attempt to develop similar technology independently. We have a number of domestic and foreign patents and pending patent applications. We pursue registration and protection of our trademarks primarily in the United States and Canada, although we also have either registered trademarks or applications pending for certain marks in other countries. No individual patent or license is material to us or our segments other than that we are the exclusive Canadian licensee of the AIR MILES family of trademarks pursuant to a perpetual license agreement with Diversified Royalty Corp., for which we pay a royalty fee. We believe that the AIR MILES family of trademarks and our other trademarks are important for our branding, corporate identification and marketing of our services in each business segment.

Competition

The markets for our products and services are highly competitive. We compete with marketing services companies, credit card issuers, and data processing companies, as well as with the in-house staffs of our current and potential clients.

LoyaltyOne. As a provider of marketing services, our LoyaltyOne segment generally competes with advertising and other promotional and loyalty programs, both traditional and online, for a portion of a client's total marketing budget. In addition, we compete against internally developed products and services created by our existing and potential clients. We expect competition to intensify as more competitors enter our market. Competitors may target our sponsors, clients and collectors as well as draw rewards from our rewards suppliers. Our ability to generate significant revenue from clients and loyalty partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our loyalty and rewards programs to consumers. The continued attractiveness of our loyalty and rewards programs will also depend on our ability to remain affiliated with sponsors and suppliers that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers.

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Epsilon. Our Epsilon segment generally competes with a variety of niche providers as well as large media/digital agencies. For the niche provider competitors, their focus has primarily been on one or two services within the marketing value chain, rather than the full spectrum of data-driven marketing services used for both traditional and online advertising and promotional marketing programs. For the larger media/digital agencies, most offer the breadth of services but typically do not have the internal integration of offerings to deliver a seamless “one stop shop” solution, from strategy to execution across traditional as well as digital and emerging technologies. In addition, Epsilon competes against internally developed products and services created by our existing clients and others. We expect competition to intensify as more competitors enter our market and technologies evolve. For our targeted direct marketing services offerings, our ability to continue to capture detailed customer transaction data is critical in providing effective marketing and loyalty strategies for our clients. Our ability to differentiate the mix of products and services that we offer, together with the effective delivery of those products and services, are also important factors in meeting our clients’ objective to continually improve their return on marketing investment.

Card Services. Our Card Services segment competes primarily with financial institutions whose marketing focus has been on developing credit card programs with large revolving balances. These competitors further drive their businesses by cross-selling their other financial products to their cardholders. Our focus has primarily been on targeting specialty retailers that understand the competitive advantage of developing loyal customers. Typically, these retailers seek customers that make more frequent but smaller transactions at their retail locations. As a result, we are able to analyze card-based transaction data we obtain through managing our credit card programs, including customer specific transaction data and overall consumer spending patterns, to develop and implement successful marketing strategies for our clients. As an issuer of private label retail credit cards and co-brand Visa®, MasterCard® and Discover® credit cards, we also compete with general purpose credit cards issued by other financial institutions, as well as cash, checks and debit cards.

Regulation

Federal and state laws and regulations extensively regulate the operations of our bank subsidiaries, Comenity Bank and Comenity Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of Comenity Bank and Comenity Capital Bank, and they impose significant restraints to which other non-regulated companies are not subject. Because Comenity Bank is deemed a credit card bank and Comenity Capital Bank is an industrial bank within the meaning of the Bank Holding Company Act, we are not subject to regulation as a bank holding company. If we were subject to regulation as a bank holding company, we would be constrained in our operations to a limited number of activities that are closely related to banking or financial services in nature. As a state bank, Comenity Bank is subject to overlapping supervision by the FDIC and the State of Delaware; as an industrial bank, Comenity Capital Bank is subject to overlapping supervision by the FDIC and the State of Utah. Both Comenity Bank and Comenity Capital Bank are under the supervision of the Consumer Financial Protection Bureau, or CFPB—a federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations—who may, from time to time, conduct reviews of their practices.

Comenity Bank and Comenity Capital Bank must maintain minimum amounts of regulatory capital, including maintenance of certain capital ratios, paid-in capital minimums, and an appropriate allowance for loan loss, as well as meeting specific guidelines that involve measures and ratios of their assets, liabilities, regulatory capital and interest rate, among other factors. If Comenity Bank or Comenity Capital Bank does not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. To pay any dividend, Comenity Bank and Comenity Capital Bank must maintain adequate capital above regulatory guidelines.

We are limited under Sections 23A and 23B of the Federal Reserve Act in the extent to which we can borrow or otherwise obtain credit from or engage in other “covered transactions” with Comenity Bank or Comenity Capital Bank, which may have the effect of limiting the extent to which Comenity Bank or Comenity Capital Bank can finance or otherwise supply funds to us. “Covered transactions” include loans or extensions of credit, purchases of or investments in securities, purchases of assets, including assets subject to an agreement to repurchase, acceptance of securities as collateral for a loan or extension of credit, or the issuance of a guarantee, acceptance, or letter of credit. Although the applicable rules do not serve as an outright bar on engaging in “covered transactions,” they do require that we engage in “covered transactions” with Comenity Bank or Comenity Capital Bank only on terms and under circumstances that are substantially the same, or at least as favorable to Comenity Bank or Comenity Capital Bank, as those prevailing at the time for comparable transactions with nonaffiliated companies. Furthermore, with certain exceptions, each loan or extension of credit by Comenity Bank or Comenity Capital Bank to us or our other affiliates must be secured by collateral with a market value ranging from 100% to 130% of the amount of the loan or extension of credit, depending on the type of collateral.

We are required to monitor and report unusual or suspicious account activity as well as transactions involving amounts in excess of prescribed limits under the Bank Secrecy Act, Internal Revenue Service, or IRS, rules, and other regulations. Congress, the IRS and the bank regulators have focused their attention on banks' monitoring and reporting of suspicious activities. Additionally, Congress and the bank regulators have proposed, adopted or passed a number of new laws and regulations that may increase reporting obligations of banks. We are also subject to numerous laws and regulations that are intended to protect consumers, including state laws, the Truth in Lending Act, as amended by the Credit Card Accountability, Responsibility and Disclosure Act of 2009, or the CARD Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. These laws and regulations mandate various disclosure requirements and regulate the manner in which we may interact with consumers. These and other laws also limit finance charges or other fees or charges earned in our lending activities. We conduct our operations in a manner that we believe excludes us from regulation as a consumer reporting agency under the Fair Credit Reporting Act. If we were deemed a consumer reporting agency, however, we would be subject to a number of additional complex regulatory requirements and restrictions.

A number of privacy laws and regulations have been enacted in the United States, Canada, the European Union, China and other international markets in which we operate. These laws and regulations place many restrictions on our ability to collect and disseminate customer information. In addition, the enactment of new or amended legislation around the world could place additional restrictions on our ability to utilize customer information. For example, Canada has enacted privacy legislation known as the Personal Information Protection and Electronic Documents Act. Among its principles, this act requires organizations to obtain a consumer's consent to collect, use or disclose personal information. Under this act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the personal information, and the act permits personal information to be used only for the purposes for which it was collected. Some Canadian provinces have enacted substantially similar privacy legislation.

In the United States under the Gramm-Leach-Bliley Act, we are required to maintain a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information. It also requires us to provide initial and annual privacy notices to customers that describe in general terms our information sharing practices. If we intend to share nonpublic personal information about customers with affiliates and/or nonaffiliated third parties, we must provide our customers with a notice and a reasonable period of time for each customer to "opt out" of any such disclosure. In Canada, the Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act, more generally known as Canada's Anti-Spam Legislation, may restrict our ability to send commercial "electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act requires that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender. In the European Union, the Directive 95/46/EC of the European Parliament, or the EU Parliament, and of the Council of 24 October

1995 required member states to implement and enforce a comprehensive data protection law that was based on principles designed to safeguard personal data, defined as any information relating to an identified or identifiable natural person. The Directive framed certain requirements for transfer outside of the European Economic Area and individual rights such as consent requirements. In January 2012, the European Commission proposed the General Data Protection Regulation, or the GDPR, a new European Union-wide legal framework to govern data sharing and collection and related consumer privacy rights. On May 25, 2018, the GDPR came into force and replaced the European Union Directive 95/46/EC and applies to and binds the 28 EU Member States. Compared to the Directive, the GDPR has resulted in greater compliance obligations, including the implementation of a number of processes and policies around our data collection and use.

In addition to U.S. federal privacy laws with which we must comply, states and cities also have adopted statutes, regulations or other measures governing the collection and distribution of nonpublic personal information about customers. In some cases these state measures are preempted by federal law, but if not, we monitor and seek to comply with individual state and local privacy laws in the conduct of our business. The European Union has also released a draft of the proposed reforms to the ePrivacy Directive that governs the use of technologies to collect consumer information.

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Similarly, it is possible that in the future, U.S. and foreign jurisdictions may adopt legislation or regulations that impair our ability to effectively track consumers' use of our advertising services, such as the FTC's proposed "Do-Not-Track" standard or other legislation or regulations similar to EU Directive 2009/136/EC, commonly referred to as the "Cookie Directive," which directs EU Member States to ensure that accessing information on an internet user's computer, such as through a cookie, is allowed only if the internet user has given his or her consent.

We also have systems and processes to comply with the USA PATRIOT ACT of 2001, which is designed to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes.

Ontario's Protecting Rewards Points Act (Consumer Protection Amendment), 2016, and additional related regulations effective January 2018, prohibit suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone, while permitting the expiry of rewards points if the underlying consumer agreement is terminated and that agreement provides that reward points expire upon termination. Similar legislation pertaining to the expiry of rewards points due to the passage of time alone was passed in Quebec in 2017.

Employees

As of December 31, 2018, we had approximately 20,000 employees. We believe our relations with our employees are good. We have no collective bargaining agreements with our employees.

Other Information

Our corporate headquarters are located at 7500 Dallas Parkway, Suite 700, Plano, Texas 75024, where our telephone number is 214-494-3000.

We file or furnish annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public at the SEC's website at www.sec.gov. You may also obtain copies of our annual, quarterly and current reports, proxy statements and certain other information filed or furnished with the SEC, as well as amendments thereto, free of charge from our website, www.AllianceData.com. No information from this website is incorporated by reference herein. These documents are posted to our website as soon as reasonably practicable after we have filed or furnished these documents with the SEC. We post our audit committee, compensation committee, nominating and corporate governance committee, and executive committee charters, our corporate governance guidelines, and our code of ethics, code of ethics for Senior Financial Officers, and code of ethics for Board Members on our website. These documents are available free of charge to any stockholder upon request.

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Item 1A.Risk Factors.

RISK FACTORS

Strategic Business Risk and Competitive Environment

Our 10 largest clients represented 31% and 33%, respectively, of our consolidated revenue for the years ended December 31, 2018 and 2017, and the loss of any of these clients could cause a significant drop in our revenue.

We depend on a limited number of large clients for a significant portion of our consolidated revenue. Our 10 largest clients represented approximately 31% and 33%, respectively, of our consolidated revenue during the years ended December 31, 2018 and 2017, with no single client representing more than 10% of our consolidated revenue during either of these periods. A decrease in revenue from any of our significant clients for any reason, including a decrease in pricing or activity, or a decision either to utilize another service provider or to no longer outsource some or all of the services we provide, could have a material adverse effect on our consolidated revenue.

LoyaltyOne. LoyaltyOne represents 14% and 17%, respectively, of our consolidated revenue for the years ended December 31, 2018 and 2017. Our 10 largest clients in this segment represented approximately 56% and 59%, respectively, of our LoyaltyOne revenue on a gross basis for the years ended December 31, 2018 and 2017. Bank of Montreal represented approximately 19% and 21%, respectively, of this segment’s revenue on a gross basis for the years ended December 31, 2018 and 2017. Sobeys Inc. and its retail affiliates represented approximately 12% and 14%, respectively, of this segment’s revenue on a gross basis for the years ended December 31, 2018 and 2017. Our contract with Bank of Montreal expires in 2020, subject to automatic renewals. Our contract with Sobeys Inc. and its retail affiliates expires in 2024, subject to contract terms.

Epsilon. Epsilon represents 27% and 29%, respectively, of our consolidated revenue for the years ended December 31, 2018 and 2017. Our 10 largest clients in this segment represented approximately 32%, of our Epsilon revenue for each of the years ended December 31, 2018 and 2017, with no single client representing more than 10% of Epsilon’s revenue during either of these periods.

Card Services. Card Services represents 59% and 54%, respectively, of our consolidated revenue for the years ended December 31, 2018 and 2017. Our 10 largest clients in this segment represented approximately 49% and 52%, respectively, of our Card Services revenue for the years ended December 31, 2018 and 2017. L Brands and its retail affiliates represented approximately 13% and 16%, respectively, of this segment’s revenue for the years ended December 31, 2018 and 2017. Our contract with L Brands and its retail affiliates expires in 2026.

We expect growth in our Card Services segment to result from new and acquired credit card programs whose credit card receivables performance could result in increased portfolio losses and negatively impact our profitability.

We expect an important source of growth in our credit card operations to come from the acquisition of existing credit card programs and initiating credit card programs with retailers and others who do not currently offer a private label or co-brand credit card. Although we believe our pricing and models for determining credit risk are designed to evaluate the credit risk of existing programs and the credit risk we are willing to assume for acquired and start-up programs, we cannot be assured that the loss experience on acquired and start-up programs will be consistent with our more established programs. The failure to successfully underwrite these credit card programs may result in defaults greater than our expectations and could have a material adverse impact on us and our profitability.

Increases in net charge-offs could have a negative impact on our net income and profitability.

The primary risk associated with unsecured consumer lending is the risk of default or bankruptcy of the borrower, resulting in the borrower's balance being charged-off as uncollectible. We rely principally on the customer's creditworthiness for repayment of the loan and therefore have no other recourse for collection. We may not be able to successfully identify and evaluate the creditworthiness of cardholders to minimize delinquencies and losses. An increase in defaults or net charge-offs could result in a reduction in net income. General economic factors, such as the rate of inflation, unemployment levels and interest rates, may result in greater delinquencies that lead to greater credit losses. In addition to being affected by general economic conditions and the success of our collection and recovery efforts, the stability of our delinquency and net charge-off rates are affected by the credit risk of our credit card and loan receivables and the average age of our various credit card account portfolios. Further, our pricing strategy may not offset the negative impact on profitability caused by increases in delinquencies and losses, thus any material increases in delinquencies and losses beyond our current estimates could have a material adverse impact on us. For 2018, our net charge-off rate was 6.1%, compared to 6.0% and 5.1% for 2017 and 2016, respectively. Delinquency rates were 5.7% of principal credit card and loan receivables at December 31, 2018, compared to 5.1% and 4.8% at December 31, 2017 and 2016, respectively.

If we fail to identify suitable acquisitions, dispositions or new business opportunities, or to effectively integrate the businesses we acquire or disaggregate the businesses we divest, it could negatively affect our business.

Historically, we have engaged in a significant number of acquisitions, and those acquisitions have contributed to our growth in revenue and profitability. We believe that acquisitions and the identification and pursuit of new business opportunities will be a key component of our continued growth strategy. However, we may not be able to locate and secure future acquisition candidates or to identify and implement new business opportunities on terms and conditions that are acceptable to us. If we are unable to identify attractive acquisition candidates or successful new business opportunities, our growth could be impaired.

Similarly, we may evaluate the potential disposition of, or elect to divest, assets or businesses that no longer complement our long-term strategic objectives. When a determination is made to sell assets or businesses, we may encounter difficulty attaining buyers or effecting desired exit strategies in a timely manner or on acceptable terms and may be subject to market forces leading to a divestiture on less than optimal price or other terms.

In addition, there are numerous risks associated with acquisitions, dispositions and the implementation of new businesses, including, but not limited to:

- the difficulty and expense that we incur in connection with the acquisition, disposition or new business opportunity;
- the inability to satisfy pre-closing conditions preventing consummation of the acquisition, disposition or new business opportunity;
- the potential for adverse consequences when conforming the acquired company's accounting policies to ours;
- the diversion of management's attention from other business concerns;
- the potential loss of customers or key employees of the acquired company;
- the impact on our financial condition due to the timing of the acquisition, disposition or new business implementation or the failure of the acquired or new business to meet operating expectations;
- the acceptance of continued financial responsibility with respect to a divested business, including required equity ownership, guarantees, indemnities or other financial obligations;
- the assumption of unknown liabilities of the acquired company;
- the uncertainty of achieving expected benefits of an acquisition or disposition, including revenue, human resources, technological or other cost savings, operating efficiencies or synergies;

- the reduction of cash available for operations, stock repurchase programs or other uses and potentially dilutive issuances of equity securities or incurrence of debt;
- the requirement to provide transition services in connection with a disposition resulting in the diversion of resources and focus; and
- the difficulty retaining and motivating key personnel from acquisitions or in connection with dispositions.

Furthermore, if the operations of an acquired or new business do not meet expectations, our profitability may decline and we may seek to restructure the acquired business or impair the value of some or all of the assets of the acquired or new business.

If actual redemptions by AIR MILES Reward Program collectors are greater than expected, or if the costs related to redemption of AIR MILES reward miles increase, our profitability could be adversely affected.

A portion of our revenue is based on our estimate of the number of AIR MILES reward miles that will go unused by the collector base. The percentage of AIR MILES reward miles not expected to be redeemed is known as “breakage.”

Breakage is based on management’s estimate after viewing and analyzing various historical trends including vintage analysis, current run rates and other pertinent factors, such as the impact of macroeconomic factors and changes in the

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program structure, the introduction of new program options and changes to rewards offered. Any significant change in or failure by management to reasonably estimate breakage, or if actual redemptions are greater than our estimates, our profitability could be adversely affected.

Our AIR MILES Reward Program also exposes us to risks arising from potentially increasing reward costs. Our profitability could be adversely affected if costs related to redemption of AIR MILES reward miles increase. A 10% increase in the cost of redemptions would have resulted in a decrease in pre-tax income of $33.0 million for the year ended December 31, 2018.

The loss of our most active AIR MILES Reward Program collectors could adversely affect our growth and profitability.

Our most active AIR MILES Reward Program collectors drive a disproportionately large percentage of our AIR MILES Reward Program revenue. The loss of a significant portion of these collectors, for any reason, could impact our ability to generate significant revenue from sponsors. The continued attractiveness of our loyalty and rewards programs will depend in large part on our ability to remain affiliated with sponsors that are desirable to collectors and to offer rewards that are both attainable and attractive.

Airline or travel industry disruptions, such as an airline insolvency, could negatively affect the AIR MILES Reward Program, our revenues and profitability.

Air travel is one of the appeals of the AIR MILES Reward Program to collectors. If one of our existing airline suppliers sharply reduces its fleet capacity and route network, we may not be able to satisfy our collectors’ demands for airline tickets. Tickets or other travel arrangements, if available, could be more expensive than a comparable airline ticket under our current supply agreements with existing suppliers, and the routes offered by other airlines or travel services may be inadequate, inconvenient or undesirable to the redeeming collectors. As a result, we may experience higher air travel redemption costs, and collector satisfaction with the AIR MILES Reward Program might be adversely affected.

As a result of airline or travel industry disruptions, political instability, terrorist acts or war, some collectors could determine that air travel is too dangerous or burdensome. Consequently, collectors might forego redeeming AIR MILES reward miles for air travel and therefore might not participate in the AIR MILES Reward Program to the extent they previously did, which could adversely affect our revenue from the program.

The markets for the services that we offer may contract or fail to expand which could negatively impact our growth and profitability.

Our growth and continued profitability depend on acceptance of the services that we offer. Our clients may not continue to use the loyalty and targeted marketing strategies and programs that we offer. Changes in technology may enable merchants and retail companies to directly process transactions in a cost-efficient manner without the use of our services. Additionally, downturns in the economy or the performance of retailers may result in a decrease in the demand for our marketing strategies. Any decrease in the demand for our services for the reasons discussed above or any other reasons could have a material adverse effect on our growth, revenue and operating results.

Competition in our industries is intense and we expect it to intensify.

The markets for our products and services are highly competitive and we expect competition to intensify in each of those markets. Some of our current competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than we do. Certain of our segments also compete against in-house staffs of our current clients and others or internally developed products and services by our current clients and others. Our ability to generate significant revenue from clients and partners will depend on our ability to differentiate ourselves through the products and services we provide and the attractiveness of our programs to consumers. We may not be able to continue to compete successfully against our current and potential competitors.

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Liquidity, Market and Credit Risk

If we are unable to securitize our credit card receivables due to changes in the market, we may not be able to fund new credit card receivables, which would have a negative impact on our operations and profitability.

A number of factors affect our ability to fund our receivables in the securitization market, some of which are beyond our control, including:

- conditions in the securities markets in general and the asset-backed securitization market in particular;
- conformity in the quality of our credit card receivables to rating agency requirements and changes in that quality or those requirements; and
- ability to fund required overcollateralizations or credit enhancements, which are routinely utilized in order to achieve better credit ratings to lower borrowing cost.

In addition, on August 27, 2014, the SEC adopted a number of rules that will change the disclosure, reporting and offering process for publicly registered offerings of asset-backed securities, including those offered under our credit card securitization program. The adopted rules finalize rules that were originally proposed on April 7, 2010 and re-proposed on July 26, 2011. A number of rules proposed by the SEC in 2010 and 2011, such as requiring group-level data for the underlying assets in credit card securitizations, were not adopted in the final rulemaking but may be adopted by the SEC in the future with or without further modifications. The adoption of further rules affecting disclosure, reporting and the offering process for publicly registered offerings of asset-backed securities may impact our ability or desire to issue asset-backed securities in the future.

Regulations adopted by the FDIC, the SEC, the Federal Reserve and certain other federal regulators mandate a minimum five percent risk retention requirement for securitizations issued on and after December 24, 2016. Such risk retention requirements may limit our liquidity by restricting the amount of asset-backed securities we are able to issue or affecting the timing of future issuances of asset-backed securities; we intend to satisfy such risk retention requirements by maintaining a seller’s interest calculated in accordance with Regulation RR.

Early amortization events may occur as a result of certain adverse events specified for each asset-backed securitization transaction, including, among others, deteriorating asset performance or material servicing defaults. In addition, certain series of funding notes issued by our securitization trusts are subject to early amortization based on triggers relating to the bankruptcy of one or more retailers. Deteriorating economic conditions and increased competition in the retail industry, among other factors, may lead to an increase in bankruptcies among retailers who have entered into credit card programs with us. The bankruptcy of one or more retailers could lead to a decline in the amount of new receivables and could lead to increased delinquencies and defaults on the associated receivables. Any of these effects of a retailer bankruptcy could result in the commencement of an early amortization for one or more series of such funding securities, particularly if such an event were to occur with respect to a retailer relating to a large percentage of such securitization trust's assets. The occurrence of an early amortization event may significantly limit our ability to securitize additional receivables.

As a result of Basel III, which refers generally to a set of regulatory reforms adopted in the U.S. and internationally that are meant to address issues that arose in the banking sector during the recent financial crisis, banks are becoming subject to more stringent capital, liquidity and leverage requirements. In response to Basel III, investors of our securitization trusts' funding securities have sought and obtained amendments to their respective transaction documents permitting them to delay disbursement of funding increases by up to 35 days. Although funding may be requested from other investors who have not delayed their funding, access to financing could be disrupted if all of the investors implement such delays or if the lending capacities of those who did not do so were insufficient to make up the shortfall. In addition, excess spread may be affected if the issuing entity's borrowing costs increase as a result of Basel III. Such cost increases may result, for example, because the investors are entitled to indemnification for increased costs resulting from such regulatory changes.

The inability to securitize card receivables due to changes in the market, regulatory proposals, the unavailability of credit enhancements, or any other circumstance or event would have a material adverse effect on our operations and profitability.

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Our level of indebtedness could materially adversely affect our ability to generate sufficient cash to repay our outstanding debt, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

We have a high level of indebtedness, which requires a high level of interest and principal payments. Subject to the limits contained in our credit agreement, the indentures governing our senior notes and our other debt instruments, we may be able to incur substantial additional indebtedness from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our level of indebtedness could intensify. Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our higher level of indebtedness, combined with our other financial obligations and contractual commitments, could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under our credit agreement, the indentures governing our senior notes and the agreements governing our other indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions and other corporate purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes;
- reduce or delay investments and capital expenditures;
- cause any refinancing of our indebtedness to be at higher interest rates and require us to comply with more onerous covenants, which could further restrict our business operations; and
- prevent us from raising the funds necessary to repurchase all notes tendered to us upon the occurrence of certain changes of control.

Interest rate increases on our variable rate debt could materially adversely affect our profitability.

Interest rate risk affects us directly in our borrowing activities. Our interest expense, net was $670.6 million for the year ended December 31, 2018. To manage our risk from market interest rates, we actively monitor the interest rates and the interest sensitive components to minimize the impact that changes in interest rates have on the fair value of assets, net income and cash flow. In 2018, a 1% increase or decrease in interest rates would have resulted in a change to our interest expense of approximately $101 million.

Future sales of our common stock, or the perception that future sales could occur, may adversely affect our common stock price.

As of February 20, 2019, we had an aggregate of 80,571,271 shares of our common stock authorized but unissued and not reserved for specific purposes. In general, we may issue all of these shares without any action or approval by our stockholders. We have reserved 6,607,624 shares of our common stock for issuance under our employee stock purchase plan and our long-term incentive plans, of which 928,947 shares have been issued and 1,047,147 shares are issuable upon vesting of restricted stock awards, restricted stock units, and upon exercise of options granted as of February 20, 2019, including options to purchase approximately 10,854 shares exercisable as of February 20, 2019 or that will become exercisable within 60 days after February 20, 2019. We have reserved for issuance 1,500,000 shares of our common stock, 518,604 of which remain issuable, under our 401(k) and Retirement Savings Plan as of December 31, 2018. In addition, we may pursue acquisitions of competitors and related businesses and may issue shares of our common stock in connection with these acquisitions. Sales or issuances of a substantial number of shares of common stock, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock, and any sale or issuance of our common stock will dilute the ownership interests of existing stockholders.

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The market price and trading volume of our common stock may be volatile and our stock price could decline.

The trading price of shares of our common stock has from time to time fluctuated widely and in the future may be subject to similar fluctuations. The trading price of our common stock may be affected by a number of factors, including our operating results, changes in our earnings estimates, additions or departures of key personnel, our financial condition, legislative and regulatory changes, general conditions in the industries in which we operate, general economic conditions, and general conditions in the securities markets. Other risks described in this report could also materially and adversely affect our share price.

There is no guarantee that we will pay future dividends or repurchase shares at a level anticipated by stockholders, which could reduce returns to our stockholders. Decisions to declare future dividends on, or repurchase, our common stock will be at the discretion of our Board of Directors based upon a review of relevant considerations.

Since October 2016, our Board of Directors has declared quarterly cash dividend payments on our outstanding common stock. Future declarations of quarterly dividends and the establishment of future record and payment dates are subject to approval by our Board of Directors. Since 2001, our Board of Directors has approved various share repurchase programs, including the share repurchase program approved in 2018 for the repurchase of up to $500.0 million of our common stock through July 31, 2019. The Board’s determination to declare dividends on, or repurchase shares of, our common stock will depend upon our profitability and financial condition, contractual restrictions, restrictions imposed by applicable law and other factors that the board deems relevant. Based on an evaluation of these factors, the Board of Directors may determine not to declare future dividends at all, to declare future dividends at a reduced amount, not to repurchase shares or to repurchase shares at reduced levels compared to historical levels, any or all of which could reduce returns to our stockholders.

Our reported financial information will be affected by fluctuations in the exchange rate between the U.S. dollar and certain foreign currencies.

The results of our operations are exposed to foreign exchange rate fluctuations. We are exposed primarily to fluctuations in the exchange rate between the U.S. and Canadian dollars and the exchange rate between the U.S. dollar and the Euro. Upon translation, operating results may differ from our expectations. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. For the year ended December 31, 2018, foreign currency movements relative to the U.S. dollar positively impacted our revenue by approximately $28 million and had a de minimis impact to our income before income taxes.

Regulatory Environment

Current and proposed regulation and legislation relating to our card services could limit our business activities, product offerings and fees charged and may have a significant impact on our business, results of operations and financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), among other things, includes a sweeping reform of the regulation and supervision of financial institutions, as well as of the regulation of derivatives and capital market activities.

The full impact of the Dodd-Frank Act is not yet known because some of the final implementing regulations have not yet been issued by the requisite federal agencies. In addition, the Dodd-Frank Act mandates multiple studies, which could result in future legislative or regulatory action. In particular, the Government Accountability Office issued its study on whether it is necessary, in order to strengthen the safety and soundness of institutions or the stability of the financial system of the United States, to eliminate the exemptions to the definition of "bank" under the Bank Holding Company Act for certain institutions including limited purpose credit card banks and industrial loan companies. The study did not recommend the elimination of these exemptions. However, if legislation were enacted to eliminate these exemptions without any grandfathering of or accommodations for existing institutions, we could be required to become a bank holding company and cease certain of our activities that are not permissible for bank holding companies or divest our credit card bank subsidiary, Comenity Bank, or our industrial bank subsidiary, Comenity Capital Bank.

The Dodd-Frank Act created the CFPB, a federal consumer protection regulator with authority to make further changes to the federal consumer protection laws and regulations. The CFPB assumed rulemaking authority under the

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existing federal consumer financial protection laws, and enforces those laws against and examines certain non-depository institutions and insured depository institutions with total assets greater than $10 billion and their affiliates.

Since October 2016, both Comenity Bank and Comenity Capital Bank are under the CFPB’s supervision and the CFPB may, from time to time, conduct reviews of their practices. In addition, the CFPB’s broad rulemaking authority is expected to impact their operations, including with respect to deferred interest products. For example, the CFPB’s rulemaking authority may allow it to change regulations adopted in the past by other regulators including regulations issued under the Truth in Lending Act by the Board of Governors of the Federal Reserve System. The CFPB’s ability to rescind, modify or interpret past regulatory guidance could increase our compliance costs and litigation exposure. Further, the CFPB has broad authority to prevent “unfair, deceptive or abusive” acts or practices and has taken enforcement action against other credit card issuers and financial services companies. Evolution of these standards could result in changes to pricing, practices, procedures and other activities relating to our credit card accounts in ways that could reduce the associated return. While the CFPB has taken public positions on certain matters, it is unclear what additional changes may be promulgated by the CFPB and what effect, if any, such changes would have on our credit accounts.

The Dodd-Frank Act authorizes certain state officials to enforce regulations issued by the CFPB and to enforce the Dodd-Frank Act’s general prohibition against unfair, deceptive or abusive practices. To the extent that states enact requirements that differ from federal standards or courts adopt interpretations of federal consumer laws that differ from those adopted by the federal banking agencies, we may be required to alter products or services offered in some jurisdictions or cease offering products, which will increase compliance costs and reduce our ability to offer the same products and services to consumers nationwide.

Various federal and state laws and regulations significantly limit the retail credit card services activities in which we are permitted to engage. Such laws and regulations, among other things, limit the fees and other charges that we can impose on consumers, limit or proscribe certain other terms of our products and services, require specified disclosures to consumers, or require that we maintain certain licenses, qualifications and minimum capital levels. In some cases, the precise application of these statutes and regulations is not clear. In addition, numerous legislative and regulatory proposals are advanced each year which, if adopted, could have a material adverse effect on our profitability or further restrict the manner in which we conduct our activities. The CARD Act, as implemented by regulations issued under the Truth in Lending Act, acts to limit or modify certain credit card practices and requires increased disclosures to consumers. The credit card practices addressed by the rules include, but are not limited to, restrictions on the application of rate increases to existing and new balances, payment allocation, default pricing, imposition of late fees and two-cycle billing. The failure to comply with, or adverse changes in, the laws or regulations to which our business is subject, or adverse changes in their interpretation, could have a material adverse effect on our ability to collect our receivables and generate fees on the receivables, thereby adversely affecting our profitability.

In the normal course of business, from time to time, Comenity Bank and Comenity Capital Bank have been named as defendants in various legal actions, including arbitrations, class actions and other litigation arising in connection with their business activities. While historically the arbitration provision in each bank’s customer agreement has generally limited such bank’s exposure to consumer class action litigation, there can be no assurance that the banks will be successful in enforcing the arbitration clause in the future. There may also be legislative, administrative or regulatory efforts to directly or indirectly prohibit the use of pre-dispute arbitration clauses.

Comenity Bank and Comenity Capital Bank are also involved, from time to time, in reviews, investigations, and proceedings (both formal and informal) by governmental agencies regarding the banks’ business, which could subject the banks to significant fines, penalties, obligations to change its business practices or other requirements. In September 2015, each bank entered into a consent order with the FDIC in settlement of the FDIC’s review regarding the marketing, promotion and sale of certain add-on products; these consent orders were terminated in August 2018.

The effect of the Dodd-Frank Act on our business and operations, which will depend upon final implementing regulations, the actions of our competitors, the behavior of other marketplace participants and its interpretation and enforcement by federal or state officials or regulators, could be significant. In addition, we may be required to invest significant management time and resources to address the provisions of the Dodd-Frank Act and the regulations that are required to be issued under it. The Dodd-Frank Act and any related legislation or regulations and their interpretation and enforcement may have a material impact on our business, results of operations and financial condition.

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Legislation relating to consumer privacy and security may affect our ability to collect data that we use in providing our loyalty and marketing services, which, among other things, could negatively affect our ability to satisfy our clients' needs.

The evolution of legal standards and regulations around data protection and consumer privacy may affect our business. The enactment of new or amended legislation or industry regulations pertaining to consumer, public or private sector privacy issues could have a material adverse impact on our marketing services, including placing restrictions upon the collection, sharing and use of information that is currently legally available. This, in turn, could materially increase our cost of collecting certain data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our clients' requirements and our profitability and cash flow targets. In addition to the United States, Canadian and European Union regulations discussed below, we have expanded our marketing services through the acquisition of companies formed and operating in foreign jurisdictions that may be subject to additional or more stringent legislation and regulations regarding consumer or private sector privacy.

There are also a number of specific laws and regulations governing the collection and use of certain types of consumer data that are relevant to our various business and services. In the United States, federal and state laws such as the federal Gramm-Leach-Bliley Act and the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003, make it more difficult to collect, share and use information that has previously been legally available and may increase our costs of collecting some data. Regulations under these acts give cardholders the ability to "opt out" of having information generated by their credit card purchases shared with other affiliated and unaffiliated parties or the public. Our ability to gather, share and utilize this data will be adversely affected if a significant percentage of the consumers whose purchasing behavior we track elect to "opt out," thereby precluding us and our affiliates from using their data.

In the United States, the federal Do-Not-Call Implementation Act makes it more difficult to telephonically communicate with prospective and existing customers. Similar measures were implemented in Canada beginning September 1, 2008. Regulations in both the United States and Canada give consumers the ability to "opt out," through a national do-not-call registry and state do-not-call registries of having telephone solicitations placed to them by companies that do not have an existing business relationship with the consumer. In addition, regulations require companies to maintain an internal do-not-call list for those who do not want the companies to solicit them through telemarketing. These regulations could limit our ability to provide services and information to our clients. Failure to comply with these regulations could have a negative impact on our reputation and subject us to significant penalties. Further, the Federal Communications Commission has approved interpretations of rules related to the Telephone Consumer Protection Act defining robo-calls broadly, which may affect our ability to contact customers and may increase our litigation exposure.

In the United States, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 restricts our ability to send commercial electronic mail messages, the primary purpose of which is advertising or promoting a commercial product or service, to our customers and prospective customers. The act requires that a commercial electronic mail message provide the customers with an opportunity to opt-out from receiving future commercial electronic mail messages from the sender. Failure to comply with the terms of this act could have a negative impact on our reputation and subject us to significant penalties.

Further, many state governments are reviewing or proposing the need for greater regulation of the collection, processing, sharing and use of consumer data for various marketing purposes. This may result in new laws or regulations imposing additional compliance requirements.

In Canada, the Personal Information Protection and Electronic Documents Act (“PIPEDA”) requires an organization to obtain a consumer’s consent to collect, use or disclose personal information. Under this act, consumer personal information may be used only for the purposes for which it was collected. We allow our customers to voluntarily “opt out” from receiving either one or both promotional and marketing mail or promotional and marketing electronic mail. Heightened consumer awareness of, and concern about, privacy may result in customers “opting out” at higher rates than they have historically. This would mean that a reduced number of customers would receive bonus and promotional offers and therefore those customers may collect fewer AIR MILES reward miles.

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Canada's Anti-Spam Legislation may restrict our ability to send "commercial electronic messages," defined to include text, sound, voice and image messages to email, or similar accounts, where the primary purpose is advertising or promoting a commercial product or service to our customers and prospective customers. The Act requires, in part, that a sender have consent to send a commercial electronic message, and provide the customers with an opportunity to opt out from receiving future commercial electronic email messages from the sender. Failure to comply with the terms of this Act or its regulations could have a negative impact on our reputation and subject us to significant monetary penalties.

On May 25, 2018, The General Data Protection Regulation, or GDPR, a European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights came into force. The GDPR replaced the European Union Directive 95/46/EC and applies to and binds the 28 EU Member States. The GDPR details greater compliance obligations on organizations, including the implementation of a number of processes and policies around data collection and use. These, and other terms of the GDPR, could limit our ability to provide services and information to our customers. In addition, the GDPR includes significant new penalties for non-compliance, with fines up to the higher of €20 million ($23 million as of December 31, 2018) or 4% of total annual worldwide revenue.

In general, GDPR, and other European Union and Member State specific privacy and data governance laws, could also lead to adaptation of our technologies or practices to satisfy local privacy requirements and standards that may be more stringent than in the U.S. Similarly, it is possible that in the future, U.S. and foreign jurisdictions may adopt legislation or regulations that impair our ability to effectively track consumers' use of our advertising services, such as the FTC's proposed "Do-Not-Track" standard or other legislation or regulations similar to EU Directive 2009/136/EC, commonly referred to as the "Cookie Directive," which directs EU Member States to ensure that accessing information on an internet user's computer, such as through a cookie, is allowed only if the internet user has given his or her consent.

In addition, in 2016, the EU-US Safe Harbor program ("Safe Harbor") was held to be invalid. Safe Harbor provided a valid legal basis for transfers of personal data from Europe Union to the United States. Although Safe Harbor is no longer valid, we have other legally recognized mechanisms in place, such as model contract clauses, that we believe allow for the transfer of customer and employee data from the European Union to the United States. If new challenges arise, or if there are changes in legal requirements, it could have an impact on how we move data from the European Union to entities outside the European Union, including to our affiliates or vendors.

There is also rapid development of new privacy laws and regulations elsewhere around the globe, including amendments of existing data protection laws to the scope of such laws and penalties for noncompliance. Failure to comply with these international data protection laws and regulations could have a negative impact on our reputation and subject us to significant penalties.

While all 50 U.S. states and the District of Columbia have enacted data breach notification laws, there is no such U.S. federal law generally applicable to our businesses. Data breach notification legislation has been proposed widely and exists in specific countries and jurisdictions in which we conduct business. In Canada, final regulations relating to mandatory reporting of privacy breaches under PIPEDA came into force on November 1, 2018. Legislative and regulatory measures, such as mandatory breach notification provisions, impose, among other elements, strict requirements on reporting time frames and providing notice to individuals.

Legislation relating to consumer protection may affect our ability to provide our loyalty and marketing services, which, among other things, could negatively affect our ability to satisfy our clients' needs.

The enactment of new or amended legislation or industry regulations pertaining to consumer protection, or any failure to comply with such changes, could have a material adverse impact on our loyalty and marketing services. Such changes could result in a negative impact to our reputation, an adverse effect on our profitability or an increase in our litigation exposure.

For example, Ontario's Protecting Rewards Points Act (Consumer Protection Amendment), 2016, and additional related regulations effective January 2018, prohibit suppliers from entering into or amending consumer agreements to provide for the expiry of rewards points due to the passage of time alone, while permitting the expiry of rewards points if the underlying consumer agreement is terminated and that agreement provides that reward points expire upon termination. Similar legislation pertaining to the expiry of rewards points due to the passage of time alone was passed in Quebec in 2017.

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Technologies have been developed that can block the display of ads we serve for clients, which could limit our product offerings and adversely impact our financial results.

Technologies have been developed, and will likely continue to be developed, that can block the display of ads we serve for our clients, particularly advertising displayed on personal computers. Ad blockers, cookie blocking, and tracking protection lists (TPLs) are being offered by browser agents and device manufacturers to prevent ads from being displayed to consumers. We generate revenue from online advertising, including revenue resulting from the display of ads on personal computers. Revenue generated from the display of ads on personal computers has been impacted by these technologies from time to time. If these technologies continue to proliferate, in particular with respect to mobile platforms, our product offerings may be limited and our future financial results may be harmed.

Our bank subsidiaries are subject to extensive federal and state regulation that may require us to make capital contributions to them, and that may restrict the ability of these subsidiaries to make cash available to us.

Federal and state laws and regulations extensively regulate the operations of Comenity Bank, as well as Comenity Capital Bank. Many of these laws and regulations are intended to maintain the safety and soundness of Comenity Bank and Comenity Capital Bank, and they impose significant restraints on them to which other non-regulated entities are not subject. As a state bank, Comenity Bank is subject to overlapping supervision by the State of Delaware and the FDIC. As a Utah industrial bank, Comenity Capital Bank is subject to overlapping supervision by the FDIC and the State of Utah. Comenity Bank and Comenity Capital Bank must maintain minimum amounts of regulatory capital. If Comenity Bank and Comenity Capital Bank do not meet these capital requirements, their respective regulators have broad discretion to institute a number of corrective actions that could have a direct material effect on our financial statements. Comenity Bank and Comenity Capital Bank, as institutions insured by the FDIC, must maintain certain capital ratios, paid-in capital minimums and adequate allowances for loan loss. If either Comenity Bank or Comenity Capital Bank were to fail to meet any of the capital requirements to which it is subject, we may be required to provide them with additional capital, which could impair our ability to service our indebtedness. To pay any dividend, Comenity Bank and Comenity Capital Bank must each maintain adequate capital above regulatory guidelines. Accordingly, neither Comenity Bank nor Comenity Capital Bank may be able to make any of its cash or other assets available to us, including to service our indebtedness.

If our bank subsidiaries fail to meet certain criteria, we may become subject to regulation under the Bank Holding Company Act, which could force us to cease all of our non-banking activities and lead to a drastic reduction in our revenue and profitability.

If either of our depository institution subsidiaries failed to meet the criteria for the exemption from the definition of “bank” in the Bank Holding Company Act under which it operates (which exemptions are described below), and if we did not divest such depository institution upon such an occurrence, we would become subject to regulation under the Bank Holding Company Act. This would require us to cease certain of our activities that are not permissible for companies that are subject to regulation under the Bank Holding Company Act. One of our depository institution subsidiaries, Comenity Bank, is a Delaware State FDIC-insured bank and a limited-purpose credit card bank located in Delaware. Comenity Bank will not be a "bank" as defined under the Bank Holding Company Act so long as it remains in compliance with the following requirements:

- it engages only in credit card operations;
- it does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties;
- it does not accept any savings or time deposits of less than $100,000, except for deposits pledged as collateral for its extensions of credit;
- it maintains only one office that accepts deposits; and
- it does not engage in the business of making commercial loans (except small business loans).

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Our other depository institution subsidiary, Comenity Capital Bank, is a Utah industrial bank that is authorized to do business by the State of Utah and the FDIC. Comenity Capital Bank will not be a "bank" as defined under the Bank Holding Company Act so long as it remains an industrial bank in compliance with the following requirements:

- it is an institution organized under the laws of a state which, on March 5, 1987, had in effect or had under consideration in such state's legislature a statute which required or would require such institution to obtain insurance under the Federal Deposit Insurance Act; and
- it does not accept demand deposits that the depositor may withdraw by check or similar means for payment to third parties.

Operational and Other Risk

We rely on third party vendors to provide products and services. Our profitability could be adversely impacted if they fail to fulfill their obligations.

The failure of our suppliers to deliver products and services in sufficient quantities and in a timely manner could adversely affect our business. If our significant vendors were unable to renew our existing contracts, we might not be able to replace the related product or service at the same cost which would negatively impact our profitability.

Failure to safeguard our databases and consumer privacy could affect our reputation among our clients and their customers, and may expose us to legal claims.

Although we have extensive physical and cyber security controls and associated procedures, our data has in the past been and in the future may be subject to unauthorized access. In such instances of unauthorized access, the integrity of our data has in the past been and may in the future be affected. Security and privacy concerns may cause consumers to resist providing the personal data necessary to support our loyalty and marketing programs. Information security risks for large financial institutions have increased with the adoption of new technologies, including those used on mobile devices, to conduct financial and other business transactions, and the increased sophistication and activity level of threat actors. The use of our loyalty, marketing services or credit card programs could decline if any compromise of physical or cyber security occurred. In addition, any unauthorized release of customer information or any public perception that we released consumer information without authorization, could subject us to legal claims from our clients or their customers, consumers or regulatory enforcement actions, which may adversely affect our client relationships.

Loss of data center capacity, interruption due to cyber-attacks, loss of network links or inability to utilize proprietary software of third party vendors could affect our ability to timely meet the needs of our clients and their customers.

Our ability, and that of our third-party service providers, to protect our data centers against damage, loss or performance degradation from fire, power loss, network failure, cyber-attacks, including ransomware or denial of service attacks, and other disasters is critical. In order to provide many of our services, we must be able to store, retrieve, process and manage large amounts of data as well as periodically expand and upgrade our technology capabilities. Any damage to our data centers, or those of our third-party service providers, any failure of our network links that interrupts our operations or any impairment of our ability to use our software or the proprietary software of third party vendors, including impairments due to cyber-attacks, could adversely affect our ability to meet our clients' needs and their confidence in utilizing us for future services.

Our failure to protect our intellectual property rights may harm our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly.

Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We may not be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights. Third parties may also assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation is time consuming and expensive to defend and could result in the diversion of our time and resources. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims. Further, our competitors or other third parties may independently design around or develop similar technology, or otherwise duplicate our services or products in a way that would preclude us from asserting our intellectual property rights against them. In addition, our contractual arrangements may not effectively prevent disclosure of our intellectual property or confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure.

Our international operations, acquisitions and personnel subject us to complex U.S. and international laws and regulations, which if violated could subject us to penalties and other adverse consequences.

Our operations, acquisitions and employment of personnel outside the United States require us to comply with numerous complex laws and regulations of the U.S. government and the various international jurisdictions where we do business. These laws and regulations may apply to our company, or our individual directors, officers, employees or agents, and may restrict our operations, investment decisions or other activities. Specifically, we are subject to anti-corruption and anti-bribery laws and regulations, including, but not limited to, the U.S. Foreign Corrupt Practices Act, or FCPA; the U.K. Bribery Act 2010, or UKBA; and Canada’s Corruption of Foreign Public Officials Act, or CFPOA. These laws generally prohibit providing anything of value to foreign officials for the purpose of influencing official decisions, obtaining or retaining business, or obtaining preferential treatment, and require us to maintain books and records that fairly and accurately reflect transactions and maintain an adequate system of internal accounting controls. As part of our business, we or our partners may do business with state-owned enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA, UKBA or CFPOA. There can be no assurance that our policies, procedures, training and compliance programs will effectively prevent violation of all U.S. and international laws and regulations with which we are required to comply. Violations of such laws and regulations could subject us to penalties that could adversely affect our reputation, business, financial condition or results of operations. In addition, some international jurisdictions in which we operate could subject us to other obstacles, including lack of a developed legal system, elevated levels of corruption, strict currency controls, adverse tax consequences or foreign ownership requirements, difficult or lengthy regulatory approvals, or lack of enforcement for non-compete agreements.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent or delay change of control transactions or attempts by our stockholders to replace or remove our current management.

Delaware law, as well as provisions of our certificate of incorporation, bylaws and debt instruments, could discourage unsolicited proposals to acquire us, even though such proposals may be beneficial to our stockholders. These include our Board’s authority to issue shares of preferred stock without further stockholder approval.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including a merger, tender offer or proxy contest involving us. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline or delay or prevent our stockholders from receiving a premium over the market price of our common stock that they might otherwise receive.

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Item 1B.Unresolved Staff Comments.

None.

Item 2.Properties.

As of December 31, 2018, we own one general office property and lease approximately 110 general office properties worldwide, comprised of approximately five million square feet. These facilities are used to carry out our operational, sales and administrative functions. Our principal facilities are as follows:

Location	Segment	Approximate Square Footage	Lease Expiration Date
Plano, Texas	Corporate	107,698	June 30, 2026
Columbus, Ohio	Corporate, Card Services	567,006	September 12, 2032
Toronto, Ontario, Canada	LoyaltyOne	199,539	March 31, 2033
Mississauga, Ontario, Canada	LoyaltyOne	50,908	November 30, 2019
Den Bosch, Netherlands	LoyaltyOne	132,482	December 31, 2033
Maasbree, Netherlands	LoyaltyOne	668,923	September 1, 2033
Wakefield, Massachusetts	Epsilon	184,411	December 31, 2020
Irving, Texas	Epsilon	221,898	June 30, 2026
Earth City, Missouri	Epsilon	116,783	April 30, 2022
West Chicago, Illinois	Epsilon	155,412	October 31, 2025
Bengaluru, India	Epsilon	308,807	October 10, 2028
Draper, Utah	Card Services	134,903	May 31, 2031
Columbus, Ohio	Card Services	103,161	December 31, 2027
Westminster, Colorado	Card Services	120,132	June 30, 2028
Couer D'Alene, Idaho	Card Services	114,000	July 31, 2038
Westerville, Ohio	Card Services	100,800	July 31, 2024
Wilmington, Delaware	Card Services	5,198	November 30, 2020

We believe our current facilities are suitable to our businesses and that we will be able to lease, purchase or newly construct additional facilities as needed.

Item 3.Legal Proceedings.

From time to time we are involved in various claims and lawsuits arising in the ordinary course of our business that we believe will not have a material effect on our business or financial condition, including claims and lawsuits alleging breaches of our contractual obligations.

Item 4.Mine Safety Disclosures.

Not applicable.

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Item 4A.Executive Officers of the Registrant.

The following table sets forth information concerning our Executive Officers as of December 31, 2018. Each of our Executive Officers is selected by our Board of Directors and holds office until his or her successor is elected and qualified.

Edward J. Heffernan President, Chief Executive Officer Age: 56
Mr. Heffernan joined us in May 1998, and has served as a director since June 2009. From May 2000 until March 2009, Mr. Heffernan served as an executive vice president and chief financial officer and, prior to that, he was responsible for mergers and acquisitions. Before joining us, he served as vice president, mergers and acquisitions, for First Data Corporation from October 1994 to May 1998. Prior to that, he served as vice president, mergers and acquisitions for Citicorp from July 1990 to October 1994, and prior to that he served in corporate finance at Credit Suisse First Boston from June 1986 until July 1990. Mr. Heffernan holds a Bachelor's degree from Wesleyan University and an MBA from Columbia Business School.

Charles L. Horn Executive Vice President, Chief Financial Officer Age: 58
Mr. Horn joined us in December 2009. From 1999 to November 2009, he served as senior vice president and chief financial officer for Builders Firstsource, Inc. From 1994 to 1999, he served as vice president, finance and treasury, for the retail operations of Pier 1 Imports, Inc. and as executive vice president and chief financial officer of Conquest Industries from 1992 to 1994. Mr. Horn served as a director and the chair of the audit committee of Moody National REIT I, Inc. from 2012 until 2017 when it was acquired by Moody National REIT II, Inc. where Mr. Horn is currently a director and the chair of the audit committee. Mr. Horn holds a Bachelor's degree in business administration from Abilene Christian University and an MBA from the University of Texas at Austin. Mr. Horn is a Certified Public Accountant in the state of Texas.

Bryan J. Kennedy Executive Vice President and President, Epsilon Age: 50
Mr. Kennedy joined our wholly-owned subsidiary, Epsilon, in June 1996. Mr. Kennedy has served as president of Epsilon since January 2009 and of Conversant since December 2014. Prior to that, he served as chief operating officer for Epsilon since October 2001 along with various senior management and executive positions within Epsilon. Mr. Kennedy held senior management positions with Capstead Mortgage Corporation from June 1990 to August 1994. Mr. Kennedy holds a Bachelor's degree from Wheaton College and an MBA from Harvard Business School.

Melisa A. Miller Executive Vice President and President, Card Services Age: 60
Ms. Miller joined us in February 2006 and assumed her current position in September 2011. Prior to assuming her current position, she served as senior vice president, chief client officer. Before joining us, Ms. Miller held a similar role with Experian, and prior to that she held several positions with Experian where she gained increasing responsibility in sales and client services roles during her 22 years of service.

Joseph L. Motes III Senior Vice President, General Counsel and Secretary Age: 57
Mr. Motes joined us in July 2015. Before joining us, Mr. Motes was with Akin, Gump, Strauss, Hauer & Feld, LLP for nearly 20 years, and was the partner and lead relationship manager for Alliance Data. Mr. Motes holds a Bachelor's degree in geology from Trinity University and a J.D. from Southern Methodist University Dedman School of Law, where he served as editor-in-chief of the SMU Law Review.

Bryan A. Pearson Executive Vice President and President, LoyaltyOne Age: 55
Mr. Pearson joined our wholly-owned subsidiary, LoyaltyOne, Co., in November 1992 and assumed his current position in 2006. Mr. Pearson served as president for the AIR MILES® Reward Program from March 1999 until October 2006 and from January 2015 until September 2017, and prior to becoming president, he held various senior management and executive positions within the AIR MILES Reward Program. Mr. Pearson held management positions with Alias Research Inc. from June 1991 until October 1992. Prior to that, he worked in brand marketing at Quaker Oats Company of Canada from July 1988 until June 1991. Mr. Pearson holds a BScH degree and an MBA from Queen's University.

Laura Santillan Senior Vice President, Chief Accounting Officer Age: 47
Ms. Santillan joined us in February 2004 and assumed her current position in February 2010. Ms. Santillan has served in various capacities of increasing responsibility, most recently as vice president, finance since October 2007 and senior vice president, finance since December 2009. Before joining the company, she served as senior manager of reporting for Dresser, Inc. from February 2002 to February 2004 and director of financial reporting for Wyndham International, Inc. from 1997 to 2002. Prior to that, she was with Ernst & Young LLP from 1993 to 1997. Ms. Santillan holds a Bachelor's degree from Southern Methodist University and is a Certified Public Accountant in the state of Texas.

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PART II

Item 5.Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is listed on the New York Stock Exchange, or NYSE, and trades under the symbol “ADS.”

Holders

As of February 20, 2019, the closing price of our common stock was $173.42 per share, there were 52,997,685 shares of our common stock outstanding, and there were 98 holders of record of our common stock.

Dividends

We paid cash dividends per share during the periods presented as follows:

	Dividends Per Share	Amount (in millions)
Year Ended December 31, 2018		
First quarter	$ 0.57	$ 31.7
Second quarter	0.57	31.6
Third quarter	0.57	31.2
Fourth quarter	0.57	30.7
Total cash dividends paid	$ 2.28	$ 125.2
Year Ended December 31, 2017		
First quarter	$ 0.52	$ 29.0
Second quarter	0.52	29.0
Third quarter	0.52	28.8

Fourth quarter	0.52	28.7
Total cash dividends paid	$ 2.08	$ 115.5

On February 7, 2019, our Board of Directors declared a quarterly cash dividend of $0.63 per share on our common stock, payable on March 19, 2019 to stockholders of record at the close of business on February 21, 2019.

Payment of future dividends is subject to declaration by our Board of Directors. Factors considered in determining dividends include, but are not limited to, our profitability, expected capital needs, and contractual restrictions. See also "Risk Factors—There is no guarantee that we will pay future dividends or repurchase shares at a level anticipated by stockholders, which could reduce returns to our stockholders." Subject to these qualifications, we presently expect to continue to pay dividends on a quarterly basis.

Issuer Purchases of Equity Securities

In 2017, the Company's Board of Directors authorized a stock repurchase program to acquire up to $1.0 billion of the Company's outstanding common stock through July 31, 2018. At July 31, 2018, $280.3 million of this program expired unused.

On July 26, 2018, the Company's Board of Directors authorized a new stock repurchase program to acquire up to $500.0 million of the Company's outstanding common stock from August 1, 2018 through July 31, 2019.

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The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (Dollars in millions)
During 2018:				
October 1-31	172,102	$ 222.55	165,000	$ 427.5
November 1-30	991,527	198.98	987,332	231.0
December 1-31	54,428	164.69	50,000	222.8
Total	1,218,057	$ 200.78	1,202,332	$ 222.8

(1) During the period represented by the table, 15,725 shares of our common stock were purchased by the administrator of our 401(k) and Retirement Saving Plan for the benefit of the employees who participated in that portion of the plan.

(2) In 2017, our Board of Directors authorized a stock repurchase program to acquire up to $1.0 billion of our outstanding common stock through July 31, 2018. At July 31, 2018, $280.3 million of this program expired unused.

On July 26, 2018, our Board of Directors authorized a new stock repurchase program to acquire up to $500.0 million of our outstanding common stock from August 1, 2018 through July 31, 2019. Our authorization is subject to any restrictions pursuant to the terms of our credit agreements, senior note indentures, and applicable securities laws or otherwise.

Performance Graph

The following graph compares the yearly percentage change in cumulative total stockholder return on our common stock since December 31, 2013, with the cumulative total return over the same period of (1) the S&P 500 Index and (2) a peer group of sixteen companies selected by us.

The companies in the peer group index are CDK Global, Inc., Discover Financial Services, Equifax, Inc., Experian PLC, Fidelity National Information Services, Inc., Fiserv, Inc., Global Payments, Inc., MasterCard Incorporated, Nielsen Holdings plc, Omnicom Group Inc., Synchrony Financial, The Dun & Bradstreet Corporation, The Interpublic Group of Companies, Inc., Total System Services, Inc., Vantiv, Inc. and WPP plc.

Pursuant to rules of the SEC, the comparison assumes $100 was invested on December 31, 2013 in our common stock and in each of the indices and assumes reinvestment of dividends, if any. Also pursuant to SEC rules, the returns of each of the companies in the peer group are weighted according to the respective company’s stock market capitalization at the beginning of each period for which a return is indicated. Historical stock prices are not indicative of future stock price performance.

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	Alliance Data Systems Corporation	S&P 500	Peer Group Index
December 31, 2013	$ 100.00	$ 100.00	$ 100.00
December 31, 2014	108.79	113.69	106.23
December 31, 2015	105.19	115.26	117.62
December 31, 2016	87.13	129.05	131.42
December 31, 2017	97.53	157.22	159.56
December 31, 2018	58.51	150.33	165.55

Our future filings with the SEC may “incorporate information by reference,” including this Form 10-K. Unless we specifically state otherwise, this Performance Graph shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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Item 6.Selected Financial Data.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table sets forth our summary historical consolidated financial information for the periods ended and as of the dates indicated. You should read the following historical consolidated financial information along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Form 10 K. The fiscal year financial information included in the table below is derived from our audited consolidated financial statements.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In millions, except per share amounts)				
Income statement data					
Total revenue	$ 7,791.2	$ 7,719.4	$ 7,138.1	$ 6,439.7	$ 5,302.9
Cost of operations (exclusive of amortization and depreciation disclosed separately below)	4,220.9	4,269.9	4,276.8	3,814.4	3,218.8
Provision for loan loss	1,016.0	1,140.1	940.5	668.2	425.2
General and administrative	172.7	166.3	143.2	138.5	141.5
Regulatory settlement	—	—	—	64.6	—
Earn-out obligation	—	—	—	—	105.9
Depreciation and other amortization	196.1	183.1	167.1	142.1	109.7
Amortization of purchased intangibles	291.2	314.5	345.0	350.1	203.4
Total operating expenses	5,896.9	6,073.9	5,872.6	5,177.9	4,204.5
Operating income	1,894.3	1,645.5	1,265.5	1,261.8	1,098.4
Interest expense, net	670.6	564.4	428.5	330.2	260.5
Income before income taxes	1,223.7	1,081.1	837.0	931.6	837.9
Provision for income taxes	260.6	292.4	319.4	326.2	321.8
Net income	$ 963.1	$ 788.7	$ 517.6	$ 605.4	$ 516.1
Less: Net income attributable to non-controlling interest	—	—	1.8	8.9	9.8
Net income attributable to common stockholders	$ 963.1	$ 788.7	$ 515.8	$ 596.5	$ 506.3
Net income attributable to common stockholders per share:					
Basic	$ 17.56	$ 14.17	$ 7.37	$ 8.91	$ 8.72
Diluted	$ 17.49	$ 14.10	$ 7.34	$ 8.85	$ 7.87
Weighted average shares:					
Basic	54.9	55.7	58.6	61.9	56.4
Diluted	55.1	55.9	58.9	62.3	62.4

Dividends declared per share:	$ 2.28	$ 2.08	$ 0.52	$ —	$ —

	As of December 31, 2018	2017	2016	2015	2014
	(In millions)				
Balance sheet data					
Credit card and loan receivables, net	$ 16,816.7	$ 17,494.5	$ 15,595.9	$ 13,057.9	$ 10,673.7
Redemption settlement assets, restricted	558.6	589.5	324.4	456.6	520.3
Total assets	30,387.7	30,684.8	25,514.1	22,349.9	20,188.2
Deferred revenue	875.3	966.9	931.5	844.9	1,013.2
Deposits	11,793.7	10,930.9	8,391.9	5,605.9	4,759.4
Non-recourse borrowings of consolidated securitization entities	7,651.7	8,807.3	6,955.4	6,482.7	5,181.1
Long-term and other debt, including current maturities	5,737.9	6,079.6	5,601.4	5,017.4	4,158.4
Total liabilities	28,055.6	28,829.5	23,855.9	20,172.5	17,556.2
Redeemable non-controlling interest	—	—	—	167.4	235.6
Total stockholders' equity	2,332.1	1,855.3	1,658.2	2,010.0	2,396.4

	Years Ended December 31, 2018	2017	2016	2015	2014
	(In millions)				
Cash flow data (1)					
Cash flows from operating activities	$ 2,754.9	$ 2,599.1	$ 2,127.2	$ 1,761.4	$ 1,403.1
Cash flows from investing activities	$ (1,872.0)	$ (4,268.1)	$ (4,291.5)	$ (3,298.7)	$ (4,572.2)
Cash flows from financing activities	$ (1,217.9)	$ 4,004.9	$ 2,637.4	$ 1,718.9	$ 3,464.1
Other financial data (2)					
Adjusted EBITDA	$ 2,465.7	$ 2,218.2	$ 2,095.8	$ 1,909.9	$ 1,597.2
Adjusted EBITDA, net	$ 2,079.8	$ 1,936.5	$ 1,880.0	$ 1,728.3	$ 1,425.5
Segment operating data					
Credit card statements generated	300.7	296.7	279.4	242.3	212.0
Credit sales	$ 30,702.3	$ 31,001.6	$ 29,271.3	$ 24,736.1	$ 18,948.2
Average credit card and loan receivables	$ 17,412.1	$ 16,185.5	$ 14,085.8	$ 11,364.6	$ 8,750.1
AIR MILES reward miles issued	5,500.0	5,524.2	5,772.3	5,743.1	5,500.9
AIR MILES reward miles redeemed	4,482.0	4,552.1	7,071.6	4,406.3	4,100.7

(1) Adjusted to reflect the retrospective adoption of Accounting Standards Update, or ASU, 2016-18, "Restricted Cash." The effect of the adoption of the standard was to include restricted cash and restricted cash equivalents in the beginning-of-period and end-of-period cash and cash equivalents totals for the periods presented. See "Recently

Adopted Accounting Standards" under Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements for additional information.

(2) See "Use of Non-GAAP Financial Measures" set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for a discussion of our use of adjusted EBITDA and adjusted EBITDA, net and a reconciliation to net income, the most directly comparable GAAP financial measure.

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Item 7.Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based businesses in a variety of industries. We offer a comprehensive portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services and private label and co-brand retail credit card programs. We focus on facilitating and managing interactions between our clients and their customers through all consumer marketing channels, including in-store, online, email, social media, mobile, direct mail and telephone. We capture and analyze data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and to enhance customer loyalty. We believe that our services are more valued as businesses shift marketing resources away from traditional mass marketing toward targeted marketing programs that provide measurable returns on marketing investments. We operate in the following reportable segments: LoyaltyOne, Epsilon, and Card Services.

2018 Highlights and Recent Developments

- Total revenue increased 1% to $7,791.2 million in 2018 compared to $7,719.4 million in 2017.
- Net income increased 22% to $963.1 million in 2018 compared to $788.7 million in 2017, and earnings per diluted share increased 24% to $17.49 in 2018 compared to $14.10 in 2017.
- Adjusted EBITDA, net increased 7% to $2,079.8 million in 2018 compared to $1,936.5 million in 2017.
- We repurchased approximately 2.2 million shares of our common stock for $443.2 million in 2018.
- We sold six credit card portfolios for cash consideration of approximately $1,153.5 million.
- We paid dividends of $125.2 million in 2018.

In the exercise of its business judgment, our Board of Directors has undertaken an evaluation of our current portfolio of businesses. In November 2018, we announced the exploration of strategic alternatives for Epsilon, including a potential sale of the business. In January 2019, we received preliminary bids for Epsilon and the process continues to advance. There can be no assurance that the exploration of strategic alternatives generally, or this process in particular, will result in any transaction or that a transaction will be consummated. Any final decision regarding strategic alternatives remains subject to approval by our Board of Directors.

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Consolidated Results of Operations

	Year Ended December 31,			% Change	
	2018	2017	2016	2018 to 2017	2017 to 2016
	(in millions, except percentages)				
Revenues					
Services	$ 2,420.0	$ 2,612.2	$ 2,504.8	(7) %	4 %
Redemption, net	676.3	935.3	993.6	(28)	(6)
Finance charges, net	4,694.9	4,171.9	3,639.7	13	15
Total revenue	7,791.2	7,719.4	7,138.1	1	8
Operating expenses					
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	4,220.9	4,269.9	4,276.8	(1)	—
Provision for loan loss	1,016.0	1,140.1	940.5	(11)	21
General and administrative	172.7	166.3	143.2	4	16
Depreciation and other amortization	196.1	183.1	167.1	7	10
Amortization of purchased intangibles	291.2	314.5	345.0	(7)	(9)
Total operating expenses	5,896.9	6,073.9	5,872.6	(3)	3
Operating income	1,894.3	1,645.5	1,265.5	15	30
Interest expense					
Securitization funding costs	220.2	156.6	125.6	41	25